STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

Of

EQUITABLE LIFE & CASUALTY INSURANCE COMPANY

Of

Salt Lake City, Utah

As of

December 31, 2009

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September 15, 2010

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Salt Lake City, Utah 84114

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Chair, Financial Condition (E) Committee, NAIC
Virginia State Corporation Commission, Bureau of Insurance Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

EQUITABLE LIFE & CASUALTY INSURANCE COMPANY

Salt Lake City, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our association examination of Equitable Life & Casualty Insurance Company. This examination covers the period of January 1, 2006 through December 31, 2009.

Examination Procedure Employed

The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The last exam was completed as of December 31, 2005. Items of significance noted in the prior examination report summary were either adequately addressed by the Company or are identified as repeat exceptions in this report.

SUMMARY OF SIGNIFICANT FINDINGS

The Company did not maintain adequate records of some board of directors committee meeting to provide evidence of the oversight obligation of the board of directors under Utah Code Annotated (U.C.A.) § 31A-5-407(6) for the proper examination of the affairs of the examinee. Evidence of certain decisions, transactions and other activities under the oversight of the board were not available. (CORPORATE RECORDS)

SUBSEQUENT EVENTS

During January, 2010, due to a number of issues and circumstances the Company ceased accepting new applications for the EquiCare 2020 long term care product. Long-term care products, marketed by the company since 1974, comprised nearly one-half of its direct premium revenues. The Company will retain and continue to administer all of its closed blocks of long term care business.

The Company has revised its core product lines since its exit from the long term care market. Medicare Supplement and Life insurance remain as core product lines. The Company will focus on establishing supplemental cash benefit plans that complement the senior life and health insurance market as a core product line, such as cash benefits for hospital stays, short term nursing home services, home health care, cancer and critical illnesses.

COMPANY HISTORY

General

The Company was initially organized on June 5, 1935, as a mutual benefit assessment association. On March 7, 1936, the Company was operating under the name of Equitable Mutual Life Insurance Company of Utah. The name was changed to Equitable Life & Casualty Insurance Company on May 18, 1938. The Company's authorized lines of insurance as of December 31, 2009, were life and disability.

On May 20, 1946, the Company was converted to a capital stock legal reserve company. Authorized capital stock of the Company consisted of 500,000 shares of $1.00 par value stock. On May 14, 1979, the articles of incorporation were amended to increase the authorized capital stock to 2,000,000 shares of $1.00 par value stock.

During 1987, the articles of incorporation were amended to provide for 408,000 shares of preferred stock with a par value of $2.00.

During 1997, the Company instituted a succession plan in which it purchased the majority of stock from shareholders directly or indirectly related to Mr. E. Rod Ross.

During 2001, the Company amended its articles of incorporation to change the common stock par value from $1.00 to no-par. In addition, the board of directors retired all common and preferred treasury stock and increased the paid-in capital account of the Company to $2,500,000. The amendment was approved by the board of directors at a special meeting held on December 17, 2001, and approved by the Utah Insurance Department (the Department) on February 19, 2002.

On May 13, 2002, the Company filed bylaws that were amended during 1998 with the Department.

On January 14, 2009, the board of directors adopted the second amended bylaws, which were approved by the Department on March 11, 2009.

On October 23, 2009 the board of directors adopted the third amended bylaws which were approved by the Department on October 27, 2009. Verbiage was changed in Section 3 to address that the board of directors will meet at least on an annual basis instead of on a regular basis as stated in the second amendment. The third amendment changed Section 14 to add an Audit Committee to the list of committees. Section 15 was added to establish a Steering Committee, which may act when the board is not in session subject to the limitations set by U.C.A. § 31A-5-412. Section 16 was added to state that no director or officer shall be liable to the Company or its Shareholders for breach of a fiduciary duty. Section 17 was added to limit the authority of the board to act without approval of the shareholders for certain acts. No other amendments to the bylaws or articles of incorporation were noted during the period covered by this examination.

Currently, the Company continues as a closely held Utah domiciled life, accident and health insurance company. It is the oldest active life insurance company domiciled in the state of Utah and among the state's largest insurers.

The company holds certificates of authority to conduct business in forty five states and the District of Columbia.

In 2007, Equitable Resolutions, LLC was formed as the exclusive marketing support arm for agents.

Dividends and Capital Contributions

There were no capital contributions or dividends during the period of examination.

Mergers and Acquisitions

There were no mergers or acquisitions during the period examination.

CORPORATE RECORDS

The Company did not maintain adequate records of certain committee meetings to provide evidence of the oversight obligation of the board of directors under U.C.A. § 31A-5-407(6). Evidence of certain decisions, transactions and other activities under the oversight of the board of directors were not available to perform a proper examination of the affairs of the examinee. The following transactions are examples:

- Permanent records of the meeting minutes of the Compensation, Finance and Investment committees of the board of directors are not kept.
- Minutes do not reflect a review of investment activity or compliance with established guidelines.

It is recommended that the Company keep and retain permanent records of all proceedings of the board of directors and its appointed committees.

The previous examination report as of December 31, 2005, dated May 4, 2007, was distributed to the board of directors on May 21, 2007.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors shall be not less than three (3) or more than twenty five (25). A majority of the directors are residents of the state of Utah and manage the business and affairs of the corporation per requirement of U.C.A. § 31A-5-407(2) and (6).

The following persons served as directors of the Company as of December 31, 2009:

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chairman, CEO, CFO, & CRO
Kendall R. Surfass – Park City, Utah	Vice Chairman, Vice President, Secretary & General Counsel
Larry A. Thomas – Park City, Utah	President & Chief Marketing Officer
Robert E. Anderson – Brooklyn Park, Minnesota	Chief Operating Officer
Joan P. Ogden – Salt Lake City, Utah	Consulting Actuary
F. Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant
William A. Adams – Draper, Utah	Leadership Consultant, Maxcomm, Inc.

The Company's bylaws provide for officers to consist of Chief Executive Officer, President, up to five (5) Vice Presidents, Secretary, and Treasurer. Other Officers and Assistant Officers, as necessary may be elected or appointed by the board of directors. Principal Officers of the Corporation shall be held by at least three (3) separate natural persons. The offices of CEO and President shall be held by members of the board of directors of the Company.

The principle officers of the Company as of December 31, 2009, were as follows:

Name and Location	Title and Principal Occupation
Earl Rodrick Ross – Salt Lake City, Utah	Chief Executive Officer
Larry Aldred Thomas – Park City, Utah	President
Kendall Ray Surfass – Park City, Utah	Vice President/Secretary
Kristine Shewell Christensen – Stansbury Park, Utah	Treasurer
Robert Elliott Anderson – Brooklyn Park, Minnesota	Chief Operating Officer

Committees and the respective committee members of the Company as of December 31, 2009 were as follows:

Steering Committee

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chair
Kendall R. Surfass – Park City, Utah	Vice President, Secretary & General Counsel
Larry A Thomas – Park City, Utah	President and Chief Marketing Officer
Robert E. Anderson – Brooklyn Park, Minnesota	Chief Operating Officer

Executive Committee

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chair
Kendall R. Surfass – Park City, Utah	Vice President, Secretary & General Counsel
Larry A Thomas – Park City, Utah	President and Chief Marketing Officer
Robert E. Anderson – Brooklyn Park, Minnesota	Chief Operating Officer

Audit Committee

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chair
Joan P. Ogden – Salt Lake City, Utah	Consulting Actuary
F. Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant
Richard Klar -	Corporate-Actuary Participant
Kristine Christensen – Stansbury Park, Utah	Treasurer

Compensation Committee

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chair
Joan P. Ogden – Salt Lake City, Utah	Consulting Actuary
F. Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant
William Adams – Draper, Utah	Leadership Consultant, Maxcomm,Inc.

Risk Management Committee

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chair
Joan P. Ogden – Salt Lake City, Utah	Consulting Actuary
Kendall Ray Surfass – Park City, Utah	Vice President, Secretary & General Counsel

Finance and Investment Committee

Name and Location	Title and Principal Occupation
E. Rod Ross – Salt Lake City, Utah	Chair
Larry A. Thomas – Park City, Utah	President & Chief Marketing Officer
F. Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant
Kristine Christensen – Stansbury Park, Utah	Treasurer – Participant
Richard Klar -	Corporate Actuary-Participant

Biographical Affidavits

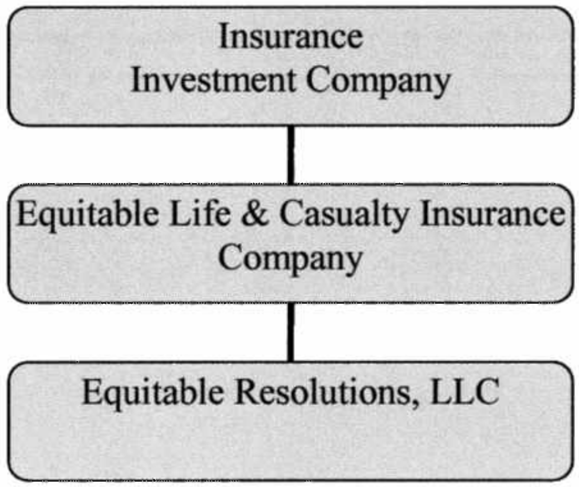
Pursuant to the requirements of the Commissioner under Utah Code 31A-5-410(1) (a) (ii) notarized biographical affidavits are to be filed immediately for any changes in key management of staff of the Company and reported to the Commissioner. The biographies provided to the examiners were not notarized, and the examiner was unable to determine when these documents were filed with the Commissioner.

During the course of the examination the Company filed complete and notarized Biographical Affidavits with the Commissioner and provided executed and filed copies to the examiner. Biographical affidavits for key officers and members of board of directors were received by the Department on June 14, 2010.

Holding Company

The Company is ninety five percent-owned by Insurance Investment Company. Mr. E. Rod Ross is the ultimate controlling person. The Companies operate independently and there are no cost sharing agreements among the companies.

An organizational chart illustrating the holding company system follows:



FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for the Company's size and premium volume is not less than $900,000. As of the examination date, the Company participated in fidelity bond coverage of $1,000,000. The Company also had additional insurance protection against loss from commercial liability, property and director and officer errors or omissions.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees participate in a 401k defined contribution plan. The plan permits up to 100% deferral of salaries on an elective basis. Company discretionary contributions are 3% of base compensation. The Company does not offer a defined benefit pension and no unfunded liability provision is necessary. The plan benefits administered by a trustee are paid as the obligations are incurred.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write Life and Accident and Health in the following states:

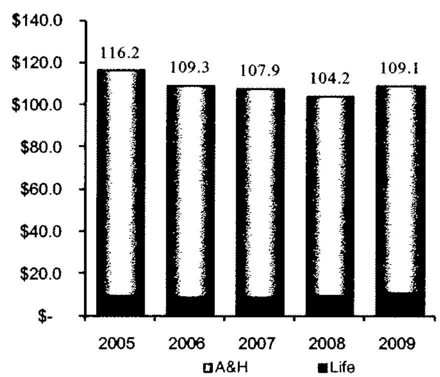
Alabama	Indiana	Nebraska	South Dakota
Arizona	Iowa	Nevada	Tennessee
Alaska	Kansas	New Hampshire	Texas
Arkansas	Kentucky	New Mexico	Utah
Colorado	Louisiana	North Carolina	Vermont
Connecticut	Maine	North Dakota	Virginia
Delaware	Maryland	Ohio	Washington
District of Columbia	Massachusetts	Oklahoma	West Virginia
Georgia	Michigan	Oregon	Wisconsin
Hawaii	Mississippi	Pennsylvania	Wyoming
Idaho	Missouri	Rhode Island	
Illinois	Montana	South Carolina	

The Company's marketing plan encompasses an independent agency system that sells insurance products in forty five states. The Company's products are available through approximately seven thousand licensed independent insurance agents nationwide and two hundred seventy eight agents appointed in the state of Utah.

GROWTH OF COMPANY

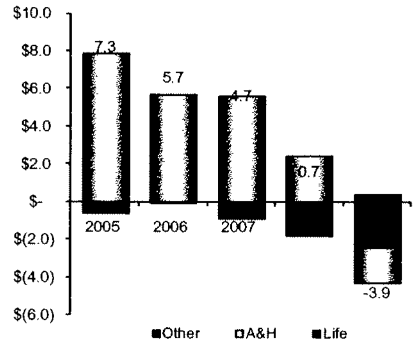
During the period of this examination, the trend for net premiums written by line of business has remained relatively constant.

Net Premiums & Considerations. by Line ($ Millions)



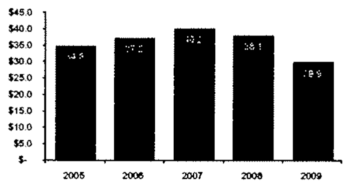
The trend for pre tax earnings showed decreases due to the strain of writing new business combined with the need for significant reserve strengthening for the Other Accident and Health line of business, particularly related to the Long Term Care products.

Pretax Earnings by Line ($ Millions)



Capital and surplus decreased during the period of examination due to the reserve strengthening described above and the increased expenses related to the production of first year life insurance premiums.

Capital & Surplus Growth ($ Millions)



MORTALITY AND LOSS EXPERIENCE

The Company's net losses incurred in 2009 were due primarily to strengthening of long-term care reserves. The capital intensive long-term care segment has reported increasing underwriting losses over the last four years due to reserve increases.

REINSURANCE

<u>Ceded</u>

As of December 31, 2009, the Company was a party to life and accident and health reinsurance contracts with various reinsurers who were authorized to conduct business in Utah. Below is a description of the significant treaties in place as of the date of examination:

Long Term Care

The Company has a significant amount of reinsurance on its Long Term Care policies with several reinsurers. Policy Forms 650 (ten year benefit period plan) and 750 (four year, ten year and unlimited benefit period plans are reinsured with ReliaStar Corporation, and Employer's Reassurance Corporation (650 four year plan). These treaties provide reinsurance on a 90/10 excess two year basis. Specifically, a reinsurance premium is paid to the reinsurer, which is equal to a certain percentage of the Company's gross earned premiums for the plans mentioned above. In return, the reinsurer pays 90% of the claims for Long Term Care stays in excess of two years. The Company retains 10% of this excess two year risk, as well as 100% of the risk on claims for stays up to two years. For example, on a four year plan, the Company will pay a reinsurance premium to ReliaStar equal to 21.3% of gross premiums. Then, for any claimant who stays in a long term care facility for five years, the Company pays 100% of claims for the first two years and

10% of the claims in excess of two years, while the reinsurer pays 90% of the claims beyond two years.

IOA Re and Munich American Reassurance Corp. reinsure all policies within plan 2002. The excess two year claims are reinsured identically to the scenario above. In addition, the first two years of risk is reinsured on an 80/20 coinsurance arrangement, with the Company paying the reinsurer 20% of the premium for up to a two year benefit period, in return for the reinsurer paying for 20% of the claims for stays up to two years.

Policy Form 2020, the Company has a straight 50-50 coinsurance agreement with RGA, whereby 50% of the premiums and claims are ceded. For 2009 and subsequent issues, RGA reinsures on a 70-30 coinsurance basis and the Company retains 30%. The EquiCare product ceased being sold in January 2010.

Life

The Company has two main treaties, one on Policy Form 393 with Cigna Re, and another on its 1002 plan. Policy Form 393 is reinsured for death claims in excess of $5,000 face amounts, for issue ages 0-65. On Policy Form 1002, which is reinsured with Munich American Reassurance Corp., face amounts over $25,000 up to $50,000 are reinsured on an 80/20 basis. For example, on a $40,000 face amount, the Company retains the first $25,000 and retains an additional 20% of the excess over $25,000 ($3,000 in this example), while the reinsurer holds $12,000. On face amounts over $50,000, the Company retains $30,000, and 100% of the excess is reinsured. Policy Forms 1004-1006 are reinsured on a 60-40 coinsurance basis. The Company retains 40% of the face amount up to a maximum of $30,000.

<u>Assumed</u>

The Company has assumed reinsurance from Heartland National Life Insurance Company, and it does not contemplate assuming additional business from other companies. The treaty provides for coinsurance based on actual premiums and claims paid. The Company assumes 95% of all premiums and claims subject to a limit of $20,000,000 in annualized premiums. Heartland retains 5% of all premiums and claims. Ceding and expense allowances are paid according a schedule attached to the treaty. The Company administers all of the policies underwritten under this agreement acting in the capacity as a third party administrator.

ACCOUNTS AND RECORDS

As of December 31, 2009, the Company's accounts and records consisted of its general ledger, registers and other subsidiary records. These were maintained on a combination of manual systems and an AS400 Electronic Data Processing (EDP) system, located at the Company's office.

An examination trial balance was prepared from the Company's computerized general ledger as of December 31, 2009. Account balances were traced to the annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

Our review did not disclose any significant deficiencies in these records, however, we noted areas where the Company's record-keeping and procedures and controls could be improved. These areas are further discussed in the "Summary of Recommendations" section of this Report.

Larson and Rosenberger, LLP, an independent certified public accounting firm, audited the Company's records during the period covered by this examination. Audit reports and work-papers prepared by the CPA for the year 2009 were made available for the examiners' use.

The examination noted various calculation and reporting errors that were not material.

- The Company used 4.5% bases reserve factors for 1980 CSO policies issued in calendar years 2006-2009. The reserve factors should have used 4.0% as specified by U.C.A. 31A-17-506. It is recommended that the Company use the correct valuation interest rate in calculating the reserves for these policies issued after 2005.

- The Company did not consider future increases to benefits in its Disabled Life Reserve calculation as required by Actuarial Standard of Practice #5 and the NAIC Health Reserve Guidance Manual. The Company's methodology produced a reasonable reserve as of December 31, 2009, but the Company was not in compliance with this requirement. It is recommended that the Company consider future benefit increases when establishing Disabled Life Reserves for the LTC business, in accordance with ASOP #5 and the NAIC Health Reserves Guidance Manual.

We recommend the Company prepare the financial statements including Exhibit 5, Exhibit 6 and Exhibit 8 according to the Annual Statement Instructions.

STATUTORY DEPOSITS

The Company's statutory deposit requirement was $400,000 pursuant to U.C.A. § 31A-5-211(2)(a) for life insurance companies. The examination confirmed the Organization maintained a statutory deposit in the state of Utah consisting of US Treasury Notes with a market value of $3,213,161 and a par value of $3,200,000, which was adequate to cover the required deposit of Utah for the benefit of Utah policyholders and to meet other states deposit requirements. Separate statutory deposits were held the benefit of the policyholders only in those states as listed below:

State	Book Adjusted Carrying Value	Market Value
Arkansas	$ 242,246	$269,668
Georgia	47,300	47,352
Massachusetts	98,397	108,289
Missouri	699,083	757,365
New Hampshire	242,246	266,563
North Carolina	500,029	526,252
South Carolina	295,397	216,578
Virginia	301,386	324,690
Total	$2,597,502	$2,786,533

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

Equitable Life & Casualty Insurance Company
BALANCE SHEET (ASSETS)
As of December 31, 2009

		Net Admitted Assets
Bonds	$	185,048,741
Mortgage loans on real estate:		
First liens		10,403,757
Other than first liens		832,520
Real estate		297,923
Properties held for sale		305,000
Cash and short term investments		13,088,678
Contract loans		1,157,497
Amounts recoverable from reinsurers		
Investment income due and accrued		1,972,432
Uncollected premiums and agents' balances in the course of collection		337,895
Deferred premiums, agents' balances and installments booked but deferred and not yet due		3,167,355
Reinsurance:		
Amounts recoverable from reinsurers		4,243,721
Other amounts receivable under reinsurance contracts		2,449,709
Current federal and foreign income tax recoverable		4,084,505
Net deferred tax asset		4,777,926
Guaranty funds receivable or on deposit		150,924
Electronic data processing equipment and software		530,157
Aggregate write-ins for other than invested assets		271,568
Total assets	$	233,120,307

Equitable Life and Casualty Insurance Company
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
As of December 31, 2009

		Current Year
Aggregate reserve for life contracts	$	37,268,965
Aggregate reserve for accident and health contracts		148,021,664
Liability for deposit-type contracts		348,409
Contract claims:		
Life		850,000
Accident and health		7,544,396
Provision for policyholders' dividends and coupons payable the following calendar year:		
Dividends apportioned for payment		371
Coupons and similar benefits		419
Premiums and annuity considerations for life and accident and health contracts received in advance		33,214
Other amounts payable on reinsurance		4,463,615
Interest maintenance reserve (IMR)		211,240
General expenses due or accrued		1,814,123
Taxes, licenses and fees due or accrued, excluding federal income taxes		95,362
Unearned investment income		14,999
Amounts withheld or retained by company as agent or trustee		80,501
Amounts held for agents' account		1,359,460
Remittances and items not allocated		173,446
Asset valuation reserve (AVR)		424,231
Aggregate write-ins for liabilities		375,788
Total Liabilities	$	203,080,203
SURPLUS AND OTHER FUNDS		
Common capital stock	$	2,500,000
Aggregate write-ins for special surplus funds		(24,290,629)
Unassigned funds (surplus)		51,830,733
Total Capital and Surplus	$	30,040,104
Total of Liabilities, Surplus, and Other Funds	$	233,120,307

Equitable Life and Casualty Insurance Company
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2009

		Current Year
Premiums and annuity considerations for life and accident and health contracts	$	109,090,362
Net investment income		9,966,513
Amortization of interest maintenance reserve (IMR)		(6,547)
Commissions and expense allowances on reinsurance ceded		4,593,736
Aggregate write-ins for miscellaneous income		3,334,884
Total Revenues	$	126,978,948
Death benefits		6,035,474
Disability benefits		62,292,980
Coupons, guaranteed annual pure endowments and similar benefits		13,837
Surrender benefits and withdrawals for life contracts		567,381
Interest and adjustments on contract or deposit-type contract funds		54,040
Increase in aggregate reserves for life and accident and health contracts		16,479,071
Total benefits and reserves	$	85,442,783
Commissions on premiums, annuity considerations and deposit-type contract funds		20,544,254
Commissions and expense allowances on reinsurance assumed		443,703
General insurance expenses		20,331,182
Insurance taxes licenses and fees, excluding federal income taxes		2,702,955
Increase in loading on deferred and uncollected premiums		1,304,678
Aggregate write-ins for deductions		90,542
Total expenses	$	45,417,314
Net gain from operations before dividends to policyholders and federal income taxes	$	(3,881,149)

Equitable Life and Casualty Insurance Company
SUMMARY OF OPERATIONS (Cont.)
For the Year Ended December 31, 2009

		Current Year
Net gain from operations before dividends to policyholders and federal income taxes	$	(3,881,149)
Dividends to policyholders		330
Net gain from operations after dividends to policyholders and before federal income taxes		(3,881,479)
Federal and foreign income taxes incurred		(3,966,483)
Net gain from operations after dividends and taxes and before realized capital gains (losses)		85,004
Net realized capital gains (losses)		(1,556,132)
Net Income (Loss)	$	(1,471,128)

Equitable Life and Casualty Insurance Company
RECONCILIATION OF CAPITAL AND SURPLUS
2006 through 2009

	2006	2007	2008	Per Exam 2009	Notes
Capital and surplus prior reporting year	$ 34,786,735	$ 37,214,108	$ 40,223,281	$ 38,077,517	
Net income (or loss)	3,668,869	3,158,403	(918,841)	(1,471,128)	
Change in net unrealized gains and losses			0		
Change in net deferred income tax	1,291,019	435,794	1,100,698	(7,535,385)	
Change in non-admitted assets	(8,510,979)	(522,457)	(2,761,930)	8,314,990	
Change in asset valuation reserve (AVR)	79,827	(56,462)	438,929	(286,043)	
Change in surplus notes	(1,456,907)	0			
Cumulative effect of changes in accounting principles	7,387,794	0			
Transferred from capital			(4,620)	(4,620)	
Change in surplus as a result of reinsurance	(28,875)	(6,105)			
Aggregate write-ins for gains and losses in surplus	(3,375)			(7,055,227)	
Net change in capital and surplus	2,427,373	3,009,173	(2,145,764)	(8,037,413)	
Capital and surplus end of reporting year	$ 37,214,108	$ 40,223,281	$ 38,077,517	$ 30,040,104	1

COMMENTS ON FINANCIAL STATEMENTS

It should be noted the findings and observations of the actuarial review were not material and are included in the ACCOUNTS AND RECORDS section of the examination report.

1. Capital and surplus $30,040,104

There were no changes to the Company's capital and surplus as reported in the Company's annual statement as of December 31, 2009.

As of December 31, 2009, the Company's minimum capital requirement was $400,000 as defined by U.C.A. 31 A-5-211(2) (a). As defined by U.C.A. 31A-17 Part 6, the Company had total adjusted capital of $30,464,335, which exceeded the Company action level risk-based capital (RBC) requirement of $8,857,028 by $21,607,307.

SUMMARY OF RECOMMENDATIONS

Cash Surrender Values

The Company has in-force life insurance policies issued in 2006, 2007, 2008, and 2009 on Policy Forms 1001-1003 that have cash surrender values that do not meet Department minimum standards as specified in U.C.A. § 31A-22-408-6d(ix). This conclusion was reached since the basis for the non-forfeiture benefits is the statutory minimum, and the non-forfeiture benefits were not recalculated to reflect the new 5.00% interest assumption requirement. Therefore, the non-forfeiture benefits found in those policies which were issued after 2005 are less than the amount required by Utah statute.

Recommendation:

During the examination the Company determined the appropriate adjustments to the cash surrenders previously paid. The payments were increased by approximately 10%, which totaled about $1,400.

The examiner must be able to determine whether effective controls are in place and are mitigating identified risks during the examination of the Company. The examiner must review and summarize an understanding of the internal controls or procedures that are in place for all identified inherent risks of the Company and develop control improvement recommendations for management. The internal controls must be assessed by how well they mitigate identified inherent risks. Risk mitigation strategies/controls generally consist of:

1. Management oversight,
2. Policies and procedures,
3. Risk measurement,
4. Control monitoring and
5. Compliance with laws and regulations.

The overall assessment must reflect the examiner's determination on how well the controls mitigate inherent risk.

The approach to identifying and assessing internal controls involves the comparison of controls to a generally accepted standard or best practice. Best practices relating to the internal controls for insurance companies are included as guidelines in the NAIC Examiners Handbook, which was used during this examination, are based upon the standards promulgated by the Committee of Sponsoring Organization's (COSO) Integrated Framework of Internal Control and the IT Governance Institute's Control Objectives for Information and related Technology (COBIT). Our reviews of the internal controls in place at the Company indicate that over-all inherent risks for most key activities are mitigated to acceptable levels.

The comparison of the general controls and IT controls in place to the standards promulgated by COSO and COBIT determined that the controls in place are effective, but several policies that are typically normally promulgated by the board of directors or senior management are not formally documented.

It is recommended that the Company initiate a program to address the following comments regarding its general and IT Controls:

Investments:

- Perform compliance audits on all third-party contracts on a regular basis.
- Review available SAS 70 type II reports from investment managers and custodians to determine if proper controls over the valuation of investments are in place.
- The review process in which the Company compares buy and sell orders to the broker statements should show sign offs of review by a responsible party and of supervisory review.
- Procedures written for disbursements should be consistent with functions being performed by personnel.
- Perform and review asset and liability matching analysis on at least a quarterly basis.

Claims Handling - Life, A&H

- Prepare a written claims administration policy.
- Prepare a claims procedure manual.
- Obtain and review SAS 70 type II reports from all outsourcing companies such as CMS to ensure compliance with the control considerations for claims processing on behalf of the Company,
- Improve the physical security of the claims check stock.

Reinsurance:

- Prepare a policy for ceding and assuming reinsurance,
- Perform a formal annual credit review of reinsurers.

Expenses:

- Perform timely reconciliations of all payroll registers to the general ledger.
- Perform management reviews of the comparison of actual payroll expenses to budgeted amounts at least quarterly.
- Review its written contracts that document the terms of its service agreements and its administration of the terms of those agreements.
- Review available SAS 70 reports from its retirement plan administrator.

IT General Controls:

- Prepare a business continuity plan,
- Implement a third party risk management program integrated with contracting and IT security measures. This program should measure and evaluate risks of using third party service providers, include "right to audit" and call for a detailed analysis of SAS70 Type II reports for all service providers.

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Respectfully Submitted,

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